



GSAssociates

Business Partners and Certified Public Accountants



Independent Auditor's System Report
For Payphone Compensation
As required by FCC Order 03-235
Docket No. 96-128



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Independent Auditor's Report **System Audit Report**

Senior Management
iBasis, Inc

At the request of the management of iBasis Inc., we have examined the call tracking systems of iBasis, Inc. and its interexchange operating subsidiaries (collectively "IBASIS") for payphone calls in compliance with FCC Order 03-235, Docket No 96-128. IBASIS management is responsible for compliance with those requirements. (See Appendix '2') Our responsibility is to express an opinion on company compliance based on our examination.

Our examination included procedures to obtain reasonable assurance about whether the controls included in our audit were suitably designed to achieve the control objectives – namely, that the call tracking system of IBASIS accurately tracks payphone calls to completion and that IBASIS satisfactorily complied with and applied these controls and such controls will be placed in operation consistently in the future.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence of compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on IBASIS's compliance with specified requirements.

In our opinion, IBASIS complied, in all material respects, with the aforementioned requirements for the period mentioned through June 30, 2010. IBASIS has sufficient controls in place to provide reasonable assurance that it will achieve the control objectives of this audit, namely that the IBASIS call tracking system accurately tracks payphone calls to completion.

The description of policies & procedures concerning Payphone Compensation at IBASIS, as well as information concerning tests of the operating effectiveness includes the period of Q2 2010. Information concerning payments made includes the period through Q1 2010. Future projection of such information is subject to the inherent risk that, because of change, the description may no longer portray those procedures in existence. The potential effectiveness of specific controls at IBASIS is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that, (1) changes made to the system or controls, (2) changes in processing requirements, or (3) changes required because of the passage of time may alter the validity of such conclusions.

This report is intended solely for the information and use of IBASIS and its designees, and is not intended to be and should not be used by anyone other than the specified party.

GSAssociates, CPAs

GSAssociates



September 30, 2009

Overview of System Audit Requirements

This System Audit Report covers FCC Order (03-235, Docket No 96-128), effective July 1, 2004 (the “Order”), requiring Interexchange Carriers (“IXCs”), incumbent local exchange carriers (“LECs”), competitive local exchange carriers (“CLECs”) and Switch Based Resellers (herein collectively or individually referred to as a “Carrier”), to establish and maintain a comprehensive Call Tracking System (“CTS”) which accurately reports and compensates Payphone Service Providers (“PSPs”).

The Order calls for an independent third party audit report in conformity with AICPA standards. The independent auditor’s report shall conclude whether the Carrier complied, in all material respects, with the factors set forth (below) regarding the CTS as follows:

- 1) Whether the Carrier’s procedures accurately reflect the Commission’s rules, including the attestation reporting requirements.
- 2) Whether the Carrier has a person or persons responsible for tracking, compensating, and resolving disputes concerning payphone completed calls.
- 3) Whether the Carrier has effective data monitoring procedures.
- 4) Whether the Carrier adheres to established protocols to ensure that any software, personnel, or any other network changes do not adversely affect its payphone call tracking ability.
- 5) Whether the Carrier has created a compensable payphone call file by matching call detail records against payphone identifiers.
- 6) Whether the Carrier has procedures to incorporate call data into required reports.
- 7) Whether the Carrier has implemented procedures and controls needed to resolve disputes.
- 8) Whether the independent third-party auditor can test all critical controls and procedures to verify that errors are insubstantial.
- 9) Whether the Carrier’s have adequate and effective business rules for implementing and paying payphone compensation.



Audit Process & Procedures

Our audit tests and reports on all nine (9) factors listed in the Order. The guidelines used to conduct and prepare the report are established in the AICPA's Statements on Standards for Attestation Engagements ("SSAE"), specifically, SSAE 10, AT Section 101 Attest Engagements and AT Section 601 Compliance Attestation.

Those standards required that we:

- 1) Have adequate technical training and proficiency in the attest function.
- 2) Perform the attest function using practitioners having adequate knowledge of the subject matter.
- 3) Evaluate the subject matter against suitable criteria such as:
 - a) *Objectivity* – free of bias
 - b) *Measurability* – reasonable consistent measurements, qualitative or quantitative, of subject matter.
 - c) *Completeness* – sufficiently complete so that relevant factors that would alter a conclusion about subject matter are not omitted.
 - d) *Relevance* – criteria relevant to the subject matter.
- 4) Maintain an Independent mental attitude in all matters relating to the engagement.
- 5) Exercise due professional care in the planning and performance of the engagement.
- 6) Obtain sufficient evidence to provide reasonable basis for our conclusion expressed in the report.

IBASIS has designed and implemented an in-house call tracking system that captures payphone originated long distance calls. Billing Services Group ("BSG") is contracted by IBASIS to process call detail records ("CDR"), compensate PSPs and satisfy all FCC-mandated reporting requirements. Attached is BSG's SAS 70 report, issued by Ernst & Young, as Appendix "1". IBASIS's use of a payphone clearinghouse does not release or transfer any of its obligations to comply with all nine (9) factors of the Order.

The scope of this audit as it relates to compensation is through March 31, 2010, which is the latest quarter that IBASIS has processed and remitted compensation to PSP's. The scope of this audit as it relates to IBASIS's processes and procedures subject to the Order is from the last published audit through June 30, 2010.



PAYPHONE COMPENSATION Policies & Procedures

IBASIS has established and documented policies & procedures specifically in compliance with the Order. These include, but are not limited to:

1. Backup Policy
2. Core Security / Critical Data Requirements Policy
3. Software Quality Testing Process
4. Change Control Policy
5. Host / Server Security Policy
6. Password Policy
7. Physical Security Policy
8. Information Access Control Policy
9. Monitoring Policy
10. Firewall Policy

IBASIS has previously provided GSA with these documents and has provided GSA with written attestation that there have been no unauthorized or significant changes to company policies which would affect the processing of payphone compensation. IBASIS further attests that no changes can be made to the software controlling the call tracking system without appropriate approvals.

Responsible Dedicated Staff

IBASIS has dedicated staff responsible for tracking, compensating, reporting and resolving disputes concerning completed calls as follows:

1. Ellen Schmidt, Senior Counsel is responsible for drafting necessary business requirements.
2. Senior Manager Applications, Stephen Becker, is responsible for developing and maintaining systems to create payphone call records from switch records.
3. Stephen Becker, Senior Manager Applications is responsible for implementing and maintaining procedures to check the validity of identified payphone records.
4. Senior Manager Applications, Stephen Becker, is responsible for implementing & maintaining procedures that create final compensation data sets.



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5. Stephen Becker, Senior Manager Applications is responsible for developing compensation tracking reports.
 6. Glenn Meloni, Director Financial Reporting, is responsible for dispute resolutions.

Data Monitoring Procedures

IBASIS has developed a systematic reporting process to generate monthly and quarterly reports on payphone call counts, numbers called, and info digits used.

These reports reflect:

- a) Trends of switch traffic volumes entering their payphone compensation systems.
- b) Possible fraud on potential illegitimate payphone calls.
- c) Trends of excluded calls.
- d) The capability to develop customized reports to help resolve disputes.
- e) Capacity for other appropriate trending reports.

GSA has reviewed and documented these reports as valid and functional. Mr. Becker indicated that through IBASIS's IT department IBASIS is able to request customized reports for reporting and monitoring purposes. GSA documented this by requesting data not normally produced through the call tracking system and reporting data files to BSG.

Compensation Assurance Protocols

IBASIS has established procedures which guarantee that the company will remain in compliance with current FCC requirements. These procedures ensure that software, personnel, or any other network changes or additions to the payphone compensation process are done in accordance with guidelines and approvals documented in the aforementioned procedure section and do not adversely affect its call tracking capabilities.

GSA has previously reviewed these procedures with the client and finds them adequate and comprehensive. IBASIS has attested to the fact that there have not been any significant or undocumented changes to the program code, stored procedures or report systems for the call tracking system or payphone compensation system to date.



Compensable Call File and Reporting

IBASIS extracts all data directly from its CDR and prepares online reports and databases for utilization in the compensation process. IBASIS compiles the appropriate call detail in a predetermined format required by BSG, and electronically transmits this data to BSG for matching and payment. This is a monthly process due to the volume of calls processed by the Carrier. The monthly data is compiled and stored. When a complete quarter has been accumulated, this data is formatted and transmitted to BSG. GSA reviewed the BSG data files for Q12010 and found them to be complete and accurate.

IBASIS also provided their raw CDR file. Our review of the file determined that it contained all the necessary data to perform the ANI match and to prepare detailed reports for compensation to each separate PSP or Aggregator. GSA also reviewed the compensation results files provided to IBASIS by BSG. The data provided to, and the results file from BSG matched. The result file contains total records; total calls, total ANIs as well as the subset of payphone originated calls and matched ANIs. GSA also received and reviewed the quarterly compensation invoice from BSG to IBASIS, describing the amount needed to fund payments to the PSPs. These files and documents are complete and accurate.

IBASIS has added an additional step to its data extracts. Because some of the underlying carriers utilized by the company, do not provide an ani identifier, each month, IBASIS loads the LEC database utilized by BSG to further extract unidentified payphone originated calls. The company has been following this process since 2007. GSA finds this to be an added assurance that no payphone call will be accidentally excluded from a compensation file.

Dispute Resolution Procedures

IBASIS has assigned its representative, Glenn Meloni, Director of Financial Reporting, as the individual responsible for interfacing with BSG. BSG is the first contact for a PSP to request additional information regarding payphone-originated calls. BSG has previously provided its detail procedure for handling disputes from PSPs, and has verified that the procedure was in use through Q1 2010. If a dispute arises where BSG cannot determine an appropriate answer to a payment question, they are directed to the IBASIS responsible party. This process is further outlined in IBASIS's Dispute Resolution procedure.



GSA has determined that the responsible party is knowledgeable and has the tools available to complete this function. IBASIS has verified that there are no outstanding disputes that have been brought to IBASIS's attention.

Compensation Verification

GSA has determined that IBASIS has properly compensated PSP's through the 1st Quarter of 2010.

GSA has reviewed Q1 2010 payment files and verified those files against IBASIS provided CDR and found no discrepancies. In addition, BSG has verified that funds were transferred and remitted to the appropriate PSPs. IBASIS has assigned Richard Tennant, Chief Financial Officer, or his designee, as the individual responsible for processing payments, and managing the relationship with BSG.

Audit Conclusions

FCC Relevant Rules Accurately Stated

IBASIS has established, defined, and documented in accordance with relevant FCC Rules each of the following:

- Per-call rate.
- Per-phone requirements.
- Calls included as compensable calls
- Definition of completed call.
- Reporting requirements.
- Data Storage Requirements.

Established Security Protocols

IBASIS has implemented security protocols to limit access to call tracking systems in a controlled environment to authorized personnel.

Monitoring tracking systems have been installed to limit access to the company's call tracking system.

Access to compensation systems is controlled and monitored as well as limited to authorized personnel through security measures which have been implemented.



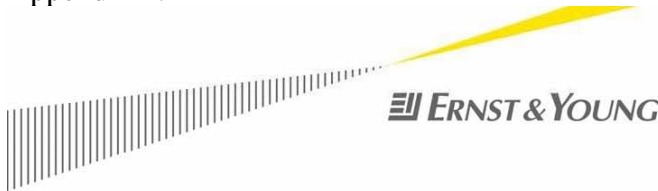
Audit Findings

iBasis, Inc., founded in 1996, is an international provider of local and long distance telecommunications services to businesses, large enterprises and other telecommunications carriers. IBASIS delivers its services over its IP and TDM infrastructure. This network is managed globally from its headquarters in Burlington Massachusetts, Hilversum, Holland and Hong Kong. iBasis is publically traded on the NASDAQ: IBAS. GSA has tested and documented that the compensation system in use as of the date of this report is effective and complete. GSA has validated payments made for Q1 of 2010. IBASIS is in compliance for the period audited and compensation has been appropriately made to the PSPs or Aggregators through March 31, 2010.



APPENDICES

Appendix 1:



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Frost Bank Tower
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Section I – Independent Service Auditor's Report

Board of Directors
Billing Services Group North America, Inc.

We have examined the accompanying description of controls related to the Dial Around Compensation (DAC) application and select information technology general controls of Billing Services Group North America, LLC and its affiliates, (collectively, BSG Limited, BSG or the Company) for their San Antonio, Texas location. Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of BSG's controls that may be relevant to a user organization's internal control as it relates to an audit of financial statements, (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily and user organizations applied the controls contemplated in the design of BSG's controls and (3) such controls had been placed in operation as of 31 March 2010. The control objectives were specified by BSG management. Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants and included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.

In our opinion, the accompanying description of the aforementioned application presents fairly, in all material respects, the relevant aspects of BSG's controls that had been placed in operation as of 31 March 2010. Also, in our opinion, the controls, as described, are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily.

In addition to the procedures we considered necessary to render our opinion as expressed in the previous paragraph, we applied tests to specific controls, listed in our description of the tests of operating effectiveness, to obtain evidence about their effectiveness in meeting the related control objectives, described in our description of those tests, during the period from 1 April 2009 to 31 March 2010. The specific controls and the nature, timing, extent and results of the tests are listed in our description of the tests of operating effectiveness. This information has been provided to user organizations of BSG and to their auditors to be taken into consideration, along with information about the internal control at user organizations, when making assessments of control risk for user organizations. In our opinion, the controls that were tested, as described in our description of the tests of operating effectiveness, were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectives specified in our description of those tests were achieved during the period from 1 April 2009 to 31 March 2010.

BSG Clearing Solutions

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Information Provided by
The Independent Auditor



Appendix 1 (continued):

The relative effectiveness and significance of specific controls at BSG and their effect on assessments of control risk at user organizations are dependent upon their interaction with controls and other factors present at individual user organizations. We have performed no procedures to evaluate the effectiveness of the controls at individual user organizations.

The description of the controls at BSG is as of 31 March 2010, and information about tests of the operating effectiveness of specific controls covers the period from 1 April 2009 to 31 March 2010. Any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the controls in existence. The potential effectiveness of specific controls at the service organization is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that changes made to the system or controls, or the failure to make needed changes to the system or controls may alter the validity of such conclusions.

This report is intended solely for the management of BSG, its customers and the independent auditors of its customers.

4/22/2010

BSG Clearing Solutions

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*Information Provided by
The Independent Auditor*



Appendix 2:



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Report of Management on Compliance with Applicable Requirements of Section 64.1310(a)(1) of the FCC's Rules and Regulations

The management of iBasis ("the Company") is responsible for establishing and maintaining adequate systems and processes for its Payphone Call Tracking System and for ensuring the Company's compliance with the applicable requirements of Section 64.1310(a)(1) of the FCC Report and Order in CC Docket No. 96-128, released on October 3, 2003, regarding *The Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996*.

Management has performed an evaluation of the company's compliance with the applicable requirements of CC Docket No. 96-128 using the criteria in 64.1320(c) as the framework for the evaluation. Based on this evaluation, we assert that as of December 31, 2010, the Company complies with all applicable requirements of CC Docket No. 96-128.

We have prepared the required assertion statements relating to the Company's Payphone Call Tracking Systems.

The Company is acknowledged as the "LEC Completing Carrier" in the following call scenarios:

- Local Toll and Local Operated assisted calls with the Info Digits (7, 27, and 70) completed by the Company ("0" indicator).

All assertions for the Company are from the point the Company has visibility to the call tracking data.

The Company utilizes an in house program for payphone compensation settlement. The Company has procedures in place to verify that controls and procedures relating to these assertions have been established and maintained. An independent accounting firm has performed an independent assessment of the effectiveness of such controls.

The Company represents the following assertions where it is identified as the LEC Completing Carrier:

FCC Compliance Factor (1) – The Company ("Completing Carrier") procedures accurately track calls to completion.

- The Company's definition of a "per-call rate" of \$.494 is in compliance with FCC rules that became effective on September 27, 2004. The "per-call rate" prior to this date was \$.24.



Appendix 2 (continued):

- The Company's definition of a "Compensable Call" (payphone-originated call that completes over the Company's network in which the Company identifies itself as the Completing Carrier) is in compliance with the FCC rules.
- The Company's definition of a "Completed Call" (call that is answered by the called party) is in compliance with the FCC rules.
- The Company's system is able to generate the following reports on a quarterly basis:
 - a) A list of the toll free and access numbers dialed and completed from each Payphone Service Provider's (PSP's) payphones along with the ANI for each payphone.
 - b) The volume of calls for each toll free and access number that was completed by the Company.
 - c) The name(s), address(es), and phone number(s) of the person(s) responsible for handling the Company's payphone compensation.
- The Company's data storage requirement (27 months) is in compliance with FCC rules.

FCC Compliance Factor (2) – The Company ("Completing Carrier") has a person or persons responsible for tracking, compensating, and resolving disputes concerning payphone-completed calls.

- The Company has designated personnel responsible for drafting the business requirements associated with tracking, compensating, and resolving disputes concerning payphone-compensated calls.
- The Company has designated personnel responsible for the development and maintenance of systems used in the collection and reporting of payphone call data.
- The Company has designated personnel responsible for the implementation and maintenance of procedures that are utilized in creating final compensation data sets.
- The Company has designated personnel who are responsible for developing compensation-tracking reports
- The Company has designated personnel who are responsible for payphone compensation dispute resolution.

FCC Compliance Factor (3) – The Company ("Completing Carrier") has effective data monitoring procedures.

- The Company has the ability to prepare quarterly reports on payphone call counts.

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Appendix 2 (continued):

- The Company performs data monitoring procedures on call record volumes entering the payphone compensation systems.
- The Company has the ability to produce trend reports of excluded calls.
- The Company works with its IT department, for fraud-monitoring procedures and processes to identify potentially illegitimate payphone calls.
- The Company has the ability to resolve any PSP disputes and assist in any of the identification processes.

FCC Compliance Factor (4) – The Company (“Completing Carrier”) adheres to established protocols to ensure that any software, personnel, or any other network changes do not adversely affect its payphone call tracking ability.

- The Company has security controls in place to control access to and monitor call-tracking data.
- The Company has a department that is responsible for making software changes that affect payphone compensation.
- The Company has established protocols to implement and test software changes affecting payphone compensation.
- The Company has application controls in place to ensure that network changes, external to payphone compensation, do not negatively impact payphone compensation.

FCC Compliance Factor (5) – The Company (“Completing Carrier”) creates a compensable payphone call file by using internal customer information matched to toll free records. This file contains all payphone traffic with payphone identifiers.

- The Company utilizes switch data and database look-ups to populate the date, originating ANI, dialed number, and aggregate data into a Compensable Call File.
- The Company uses payphone specific identifiers (info digits) to identify a compensable payphone call record.
- The Company applies validation and control procedures to compile the Compensable Call File.

FCC Compliance Factor (6) – The Company (“Completing Carrier”) has procedures to incorporate call data into required reports and making payment to PSPs.



Appendix 2 (continued):

- The Company's systems are able to generate a quarterly file from their raw switch records that contains completed pay phone calls. This data is formatted based on internal requirements and passed over for producing all necessary reports and making payments to PSP's.

FCC Compliance Factor (7) – The Company ("Completing Carrier") has implemented procedures and controls needed to resolve payphone compensation disputes.

- The Company maintains required call tracking data for at least 27 months.
- The Company has the ability to investigate and resolve PSP disputes.
- The Company has designated personnel who are responsible for payphone compensation dispute resolution.

FCC Compliance Factor (8) – Critical controls and procedures have been tested by the Company ("Completing Carrier") to verify that errors are insubstantial.

- The Company has procedures to identify payphone-terminated calls, and has tested the effectiveness of these procedures to management satisfaction.
- The Company has procedures to capture dial-around calls and has tested the effectiveness of these procedures to management satisfaction.
- The Company has procedures to accurately populate call record data in the Compensable Call File for processing and payment to the PSP's and has tested the effectiveness of these procedures to management satisfaction.

FCC Compliance Factor (9) – The Company ("Completing Carrier") has in place adequate and effective business rules for implementing and paying payphone compensation, including rules used to: (i) identify calls originated from payphones; (ii) identify compensable payphone calls; (iii) identify incomplete or otherwise non-compensable calls; and (iv) determine the identities of the payphone service providers to which Completing carrier owes compensation.

- The Company has business rules that identify calls originated from payphones.
- The Company has business rules that identify compensable payphone calls.
- The Company has business rules that exclude incomplete calls.



Appendix 2 (continued):

- The Company maintains a customer list of payphone owners to maintain and determine the identities of the payphone service providers for which Company Name owes compensation as a completing carrier.

The Company – Required Disclosures per 64.1320(d)

- The Company has criteria for identifying calls originating from payphones which include a call record info-digit identification of 7, 27, or 70.
- The Company has criteria for identifying compensable payphone calls include all calls with info-digits 7, 27 or 70 and call duration greater than 0. Calls originating from payphones where Company Name has a separate compensation agreement in place are excluded from the Compensable Call File.
- The Company has criteria for identifying incomplete or otherwise noncompensable calls which include: a) calls that do not have info-digits 7, 27, or 70, b) calls with duration of 0 or c) calls that originate from payphones where Company Name has a separate compensation agreement in place.
- The Company has criteria that is used to determine the identity of the PSPs to which Company Name owes compensation is established by Company Name customer master.

Dated: 12/31/2010


Glenn Meloni
Director, Financial Reporting
iBasis